

DESTINATION MEDICAL CENTER CORPORATION

(DMCC) BOARD MEETING

Thursday, July 27, 2017

9:30 A.M.

MINUTES

- I. Call to Order. Acting Chair R.T. Rybak called the meeting to order at 9:30 a.m. at the Mayo Civic Center, Suite 111, located at 30 Civic Center Drive SE, Rochester, MN 55904.
- II. Roll Call. In attendance were Vice Chair R.T. Rybak, Council Member Mark Hickey, Jim Campbell, Mayor Ardell Brede, Michael Dougherty and Susan Park Rani.
- III. Approval of Agenda.
- IV. Approval of Minutes: April 27, 2017. Mayor Brede moved approval of the Minutes of the meeting held on April 27, 2017. Mr. Campbell seconded.

Ayes (6), Nays (0), Motion carried.
- V. Public Comment Period. Chair Rybak invited members of the public to provide comment.

Tanya Ragan, resident of Rochester, spoke regarding historic preservation and possible rehabilitation or renovation options related to the former Traveler's Hotel.

Paula Hardin, resident of Rochester, suggested boundary modifications to accommodate a new public library on City-owned property at the corner of 41st Street NW and West River Road, citing parking availability and cost, as well as ADA compliance concerns.
- VI. Chair's Report.
 - A. Executive Committee Report. The Executive Committee met on May 24, 2017. The committee members, joined by Mayor Brede, approved the 2016 audit and the pursuit of trademark protection for "Discovery Square."
 - B. Transportation Work Session. On June 14, 2017, members of the DMCC and EDA boards of directors, the Olmsted County Board of Commissioners, and the Rochester City Council, met jointly to review the integrated transit studies (ITS) scenarios. SRF Consulting program manager Ken Holte offered comments to the Board, noting that the session was meant to elicit additional input following a May 30, 2017 public open house.

A third work session will likely be scheduled for late September or early October 2017. The ITS team will determine its final ITS recommendations in early September, followed by DMCC and Rochester City Council review. A final report, to include cost and phasing estimates, will be submitted in early 2018.

Mayor Brede asked whether elevated transit solutions are still being considered. Mr. Holte replied that elevated autonomous vehicle options are still in the transit scenarios. Chair Rybak stated that the June 14 work session included discussions regarding addressing multiple downtown points of entry, easing "pinch points," and addressing biking and walking challenges.
 - C. 2018 Budget Review Workgroup and Timeline. Chair Rybak asked for volunteers to examine the 2018 budget. Mr. Dougherty, Mr. Campbell and Council Member Hickey indicated their willingness to participate, along with Commissioner Bier. The DMCC will request a budget submission extension from the City of Rochester to allow the DMCC to consider the 2018 Funding Request at its meeting on November 2, 2017.
 - D. DEED Certification. The Minnesota Department of Employment and Economic Development

(DEED) certified the 2016 DMC private investment expenditures, which brought the cumulative private investment total to more than \$297 Million. DEED will be transferring more than \$2.68 Million in state aid to the City of Rochester in September 2017. Chair Rybak stated that the state investment is a validation of the DMC initiative's momentum. Mayor Brede noted that the amount of state aid will continue to grow year-over-year as private investment continues to occur in the DMC district.

- E. City of Rochester Reimbursement Resolution. The Rochester City Council recently approved a resolution providing for the replenishment of the city flood control account for funds used in DMC start-up activities. Chair Rybak noted the importance of understanding the flow of public funding as well as recognizing and prioritizing the projects and programs that could be supported with state funding.

- VII. DMCC Form 990; Annual Charitable Organization Report. Craig Popenhagen of CliftonLarsonAllen provided the report on the DMCC's 2016 IRS Form 990 and the Minnesota State Charitable Organization Report. The Form 990 has a filing deadline of November 15, 2017. The Minnesota Charitable Organization Annual Report will be filed with the State of Minnesota Attorney General's office. Mr. Popenhagen reported that a current nonprofit corporation annual registration is on file at the Minnesota Secretary of State's office; however, a renewal must be completed by the DMCC by the end of 2017.

Resolution A: Approving the 2017 State of Minnesota Charitable Organization Annual Report and 2016 Form 990. Mayor Brede moved approval. Mr. Dougherty seconded.

Ayes (6), Nays (0), Motion carried.

- VIII. Project Approval: Mortenson Phase 1 Discovery Square Development Project. Lisa Clarke, EDA Executive Director, Terry Spaeth, City of Rochester Redevelopment Director, and Patrick Seeb, EDA Economic Development and Placemaking Director, presented the recommendation for approval.

Chair Rybak mentioned the importance of brand identity and questioned whether the constructed building will be known as the "Mortenson" building and proposed that the development be used to showcase the "Discovery Square" brand. Mr. Seeb replied that the finished building will have a name and that the subdistrict will continue to be known as Discovery Square.

Chair Rybak asked if any issues exist between the DMC goal to create a life science research building and the private investment partners' goal to secure tenants that are able to pay market rate rent. Jeremy Jacobs, Development Executive for Mortenson Co., joined Mr. Seeb and Mr. Spaeth to inform the Board that Mortenson is actively pursuing synergistic tenants for this development

Mr. Seeb stated that the approximately \$35 million project will increase the annual property tax revenue from approximately \$68,000 to \$468,000. Public investment in the proposed building will support market activity that otherwise could not occur and that will encourage additional adjacent private development. The project will achieve significant energy and sustainability goals, including operating at twenty percent under ASHRAE 90.1 2010, and Mortenson will pursue LEED certification. Council Member Hickey inquired about the energy savings payback period. Kevin Bright, the City-EDA Energy and Sustainability Director, responded: the simple payback period is approximately ten years.

Ms. Park Rani asked if the project team considered the ongoing transportation planning efforts when developing the project plan. Mr. Seeb indicated that the team had done so, including a review of the proposed circulator and city loop routes.

Mr. Jacobs described the project as a series of leaps of faith premised on the advancement of a new life science economy in Rochester that can put science on display and promote Discovery Square.

Chair Rybak asked Mr. Jacobs about the extraordinary aspects of this project that necessitate public investment. Mr. Jacobs noted that the aspirational goals of the project can reflect negatively on the project pro forma, limiting potential private investors. Public funding removed some of those limitations, and Mr. Jacobs went on to describe several existing examples of public-private funding partnerships.

Resolution B: Approving the Mortenson Phase 1 Discovery Square Development Project, with Conditions. General Counsel Kathleen Lamb noted that revised resolutions, EDA reports, and City memoranda were provided to the Board immediately prior to the meeting. The materials include the updated TIF request. Mr. Dougherty moved approval. Mr. Campbell seconded.

Ayes (6), Nays (0), Motion carried.

IX. Project Update (City of Rochester, EDA).

A. Project Updates.

1. Urban on First. Mr. Seeb stated that the \$38 Million project, which is conditionally approved to receive \$3.8 million in TIF, continues to make progress. The project was approved by the DMCC Board in February 2017 and by the Rochester City Council in March. Schematic design, financing progress, and entitlement and permitting continues. Groundbreaking is scheduled to occur in late 2017.

Mr. Campbell requested the EDA staff provide an update on project financing at the November 2017 DMCC meeting. Mr. Dougherty concurred.

2. Titan Hilton. The Titan Hilton project broke ground in December 2016. Presently, more than fifty employees work on the construction site, a figure that will increase to more than 300 workers as construction progresses. Mr. Spaeth noted that the adjacent City-owned parking ramp is being built to accommodate additional development atop the parking structure. The City of Rochester has issued a request for proposal for air rights additional development. A portion of the ramp will be assigned to the Titan Hilton.
3. Alatus Project. Mr. Seeb reported that Alatus' 347-unit apartment building will be constructed immediately west of Mayo Clinic Hospital Saint Marys Campus. Property acquisition continues, schematic design is complete, and design development is fifty percent complete. Financing is expected to close in September 2017. Excavation will begin in October 2017.

B. Public Realm Updates.

1. Heart of the City. Shane Coen of Coen+Partners and Jon Buggy of RSP Architects presented the Heart of the City public realm phasing and design update. Mr. Buggy noted the good community participation in the public realm development. Mr. Dougherty stressed the importance of capitalizing on the renovation of the Chateau Theatre and the engagement of downtown property owners to realize the vision of Heart of the City.

Mr. Buggy reported that RSP Architects is completing schematic design and described the benefits of investment in public space. Mr. Coen stated that a vision statement has been created for Heart of the City. The Heart of the City design process focused on several elements: Second Avenue; First Avenue and the alleys; Peace Plaza; Theatre Square; and public art.

Mr. Buggy detailed the cost estimate for the Heart of the City public realm, which totals more than \$46 Million including contingency. On a cost-per-square-foot basis, the public space redesign is comparable to similar projects across the nation. Operations and maintenance costs were also calculated: annual earned and contributed income as well the value capture, were considered, and it was determined that ongoing public support would be needed for operations and maintenance. Other recommendations include that the city parks and recreation department continue to care for the space; the Rochester Downtown Alliance should have access to additional resources to properly program the space; that a clear governance structure should be put in place to manage construction and operations; and that the redevelopment should occur as a one-time, multiple-phase project. Budget, scope and schedule are due by the end of 2017, design development could begin in 2018 with a construction start in late 2019.

Mr. Campbell complimented the team's work and Chair Rybak stated that a greater sense of "place" was created than he expected. Chair Rybak also suggested that a single but phased project would likely result in less disruption to adjacent businesses and encouraged the development team to move ahead quickly. Chair Rybak, questioned why a skyway-to-ground-level connection was not demonstrated. Mr. Seeb noted that the easement restriction held by Kahler Hospitality Group (KHG) limits changes to that area of the plaza.

Chateau Theatre. Mr. Seeb stated the importance of integrating the renovation of the historic Chateau Theatre with the redevelopment and renovation of adjacent properties and the Heart of the City public realm. Operating and governance plans are being considered. Mr. Campbell stated that he would like to see more frequent uses during this interim period.

2. Saint Marys Place. Mr. Seeb reported that possible prototyping will occur in Saint Marys Place, and community and City Council updates will occur. A more in-depth report will be submitted to the DMCC Board in November 2017. Chair Rybak suggested that wayfinding tools, like pavement treatments and landscaping, could be used to connect the subdistricts.

X. EDA Report.

- A. Marketing Metrics. Ms. Clarke noted that the DMC marketing campaign has been active for two months and seeks to garner national attention for the DMC initiative. Presently, the media campaign seeks to drive traffic to www.dmc.mn. Marketing is targeted to life science, investment, and development audiences. June 2017 was the highest web traffic month to-date, likely due to the BIO International conference and the introduction of the DMC Storyteller videos. San Diego, CA, was the highest originating location for web visitors in June, the first month ever when Rochester, MN was not the number one location. Delta Sky magazine and NPR are providing national coverage.

Relationship marketing continues to be the most effective tool for promoting DMC. In Q2 2017, EDA staff held fifty-three private investor meetings, including visits with five international audiences. Regional and statewide partners like Medical Alley Association and DEED continue to assist in identifying audiences for DMC.

- B. Energy Integration Group Update. Mr. Bright presented the energy update. Mr. Bright described some of the more ambitious DMC energy goals, including greenhouse gas reductions, water performance goals, and an overall DMC district energy reduction of twenty-five percent below 2010 levels by 2030. Development in the DMC District makes such a goal more difficult to achieve, so reducing existing energy usage while setting policies that encourage energy-efficient new development will be necessary. Mr. Bright is also working with the City of Rochester to reduce energy consumption in its current building stock.

XI. DMCC 2017 Budget: Year to Date Update. Chair Rybak noted that the financials are in the Board packet.

XII. Meeting Schedule. Chair Rybak reminded the Board that an additional transportation work session will likely be held in late September or early October 2017.

- A. Next Regular Meeting: November 2, 2017 at 9:30 A.M.

XIII. Adjournment. Chair Rybak adjourned the meeting.